

Corpsec Hotline

September 10, 2009

IS INDIA READY FOR DEBT MANAGEMENT OFFICE?

Debt management has over the years become a specialist job and administrations the world over have resorted to branching this activity under a separate authority. In the US, debt management falls within the Treasury's domain, while the Federal Reserve, the US government's central bank, deals with monetary policy. Most of the jurisdictions worldwide, like UK, Sweden, Brazil, have a separate entity managing debt and in-charge of raising and managing debt for the respective administrations.

Presently, the Reserve Bank of India carries out both the debt management and the monetary policy implementation functions, for the central government. Therefore, a case for a separate DMO is being made out mainly on the ground that the central bank is conflicted when it acts both as the government's banker trying to borrow as cheap as possible, and also as the prime authority responsible to enforce the monetary policy with the prevalent interest rates.

Contrary to popular belief, a separate DMO is unlikely to increase in forced mopping of government securities (G-Secs) by public sector banks anymore than already be. With ever-decreasing global interest rates, higher yield of Indian public debt anyways remains very alluring.

Importantly, the development of the G-Secs market is essential for any economy to come of age. It requires dedicated professional management and carving out a separate DMO may be the correct approach. Another factor to consider is India's debt rating that is just about investment grade or thereabouts. A dedicated approach towards debt management will help in improving the disappointing debt rating.

With the Indian government taking on its biggest public debt raising exercise till date of approximately close to \$ 90 billion or Rs 4.5 lakh crore, the presence of a vibrant and dynamic debt and G-Secs market involving participation from all class of investors (and not only from a few institutional players, as is the case now) has become paramount. Due to the severe global credit crisis, the Indian government, like most other governments the world over, was pushed to walk the path of an expansionary fiscal policy.

The Fiscal Responsibility and Budget Management Act, 2003, which lay policy targets for both the fiscal deficit and the revenue deficit up to 2008 and aimed at institutionalising fiscal management to bring about greater fiscal discipline, had to be consequently put in suspension. Taxes were lowered and expenditure increased to stimulate (a) the sagging economic sentiment; and (b) increase the money flow to thwart the adverse effects of credit crunch which has resulted in India's present fiscal deficit reaching alarming levels.

Therefore, the need for a sound public debt management strategy has become even more pressing. It is the need of the time to lower the cost of public borrowing, while balancing it with extant monetary policy initiatives and refinancing risks inherent in any government borrowing plan.

Is there a downside? Absolutely, every change has the potential to be catastrophic.

It is contended that there exist three pre-conditions to separation of debt management, namely, (a) reasonable control over fiscal deficit; (b) development of financial market; and (c) legislative changes.

The first two pre-conditions are moot as they pose the chicken and egg problem. The third one is entirely achievable.

There are some issues that must necessarily be addressed during the process of setting-up the DMO.

- The seamless integration for efficient debt management and coordination of the DMO with the other limbs of the Indian government is the pivotal concern.
- Sustainability analysis for public debt should incorporate appropriate mechanism for reporting from on-ground debt managers, thereby drawing upon their market intelligence and understanding.
- The ongoing credit crisis has proven that the once infallible are also fallible. Countries can little afford defaulting on their sovereign debt obligations as there is unquantifiable reputational risk associated with it. Legal enforceability of debt obligations in both, domestic and international markets, and understanding the legal implications of various complex structured transactions becomes essential. Adequate measures are necessary in this regard.
- Creation of DMO has to adhere to a proper constitutional procedure that empowers the DMO to bind and be bound on behalf of the Indian government. Clarity in delegation of this power and function is indispensable.
- It is rather impossible to foresee all future situations for such a wide function. Thus, the regulations must not be too detailed. They should clearly state the main activity of DMO, provide operational guidelines and establish a seamless coordination mechanism.

Indian regulators, RBI and SEBI, have been casted away for towing a conservative approach over the years, but the

Research Papers

Structuring Platform Investments in India For Foreign Investors

March 31, 2025

India's Oil & Gas Sector— at a Glance?

March 27, 2025

Artificial Intelligence in Healthcare

March 27, 2025

Research Articles

Re-Evaluating Press Note 3 Of 2020: Should India's Land Borders Still Define Foreign Investment Boundaries?

February 04, 2025

INDIA 2025: The Emerging Powerhouse for Private Equity and M&A Deals

January 15, 2025

Key changes to Model Concession Agreements in the Road Sector

January 03, 2025

Audio

CCI's Deal Value Test

February 22, 2025

Securities Market Regulator's Continued Quest Against "Unfiltered" Financial Advice

December 18, 2024

Digital Lending - Part 1 - What's New with NBFC P2Ps

November 19, 2024

NDA Connect

Connect with us at events, conferences and seminars.

NDA Hotline

Click here to view Hotline archives.

Video

Vyapak Desai speaking on the danger of deepfakes | Legally Speaking with Tarun Nangia | NewsX

same dogged approach tempered with sensible pro-action, like in the Satyam fiasco, has largely served in shielding India from the Asian financial crisis and the present global credit crisis.

Nevertheless, the creation of DMO will not be frivolous, as it shall result in removing the conflict with monetary policy management and provide the much needed stimulus to debt markets. In any case, divestment of the debt management function from RBI to a separate authority is likely to involve multiple phases, with adequate check-posts at each phase. If worked out with adequate precaution, the DMO can serve as a change agent for the development of the Indian debt markets.

This article first appeared on the Policy Page of The Economic Times, Mumbai edition dated August 11, 2009.

- Nirvaan Gupta, Chittaranjan Datar & Siddharth Shah

DISCLAIMER

The contents of this hotline should not be construed as legal opinion. View detailed disclaimer.

This Hotline provides general information existing at the time of preparation. The Hotline is intended as a news update and Nishith Desai Associates neither assumes nor accepts any responsibility for any loss arising to any person acting or refraining from acting as a result of any material contained in this Hotline. It is recommended that professional advice be taken based on the specific facts and circumstances. This Hotline does not substitute the need to refer to the original pronouncements.

This is not a Spam mail. You have received this mail because you have either requested for it or someone must have suggested your name. Since India has no anti-spamming law, we refer to the US directive, which states that a mail cannot be considered Spam if it contains the sender's contact information, which this mail does. In case this mail doesn't concern you, please unsubscribe from mailing list.

April 01, 2025

Vaibhav Parikh, Partner, Nishith Desai Associate on Tech, M&A, and Ease of Doing Business

March 19, 2025

SIAC 2025 Rules: Key changes & Implications

February 18, 2025